

While some businesses get tax breaks, others get new tax

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Jake
Griffin

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Downers Grove finds itself in a bit of a financial pickle -- one that will add 1 percent to local diners' bills next year.

Restaurant owners are bracing for a recently approved food and beverage tax designed to make up for a drop in sales tax revenue to the village, even as several other local businesses are getting significant sales tax rebates.

The food and beverage tax is expected to generate \$1.5 million a year and will take effect in January.

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Last year, sales tax receipts were down more than \$1.3 million in the village from the previous year. At the same time, the village rebated more than \$1.1 million in sales taxes to eight local businesses, according to village financial reports obtained through a public records request.

"The sales tax rebate program was born out of the Great Recession," said Village Manager David Fieldman. "We were in a highly competitive area, so we put forth a practice saying we will offer sales tax rebates to locate here as a way to make sure that we were the selected village, and we think that works."

Eight years after the recession ended, the village has expanded the program. The most recent sales tax break was

granted in 2016. Fieldman believes the rebates give away some money in order to keep more from leaving town.

But critics contend more sales taxes than ever are being rebated to a few businesses at the expense of others, especially when different taxes are being put in place to cover losses.

The 2016 rebates amounted to 5.4 percent of all sales taxes collected by Downers Grove that year, according to a Daily Herald analysis of the village's audits. In the previous five years, the rebates averaged 4.4 percent of the village's total sales taxes.

Meanwhile, Downers Grove also increased the amount of money it holds in reserve by 9.1 percent from 2014 to 2016. The village's audit reported \$18.7 million in reserve at the end of 2016, which amounted to more than 40 percent of the town's annual operating expenses.

"Citizens in Downers Grove might be better served in deeper discussion and disclosure of the alleged benefits to the village of these rebates," said Bill Bergman, director of research at Truth in Accounting, a Chicago-based group pushing for more uniform, understandable and accessible government financial reporting requirements.

Downers Grove is not alone in its affinity for sales tax rebate programs as an economic development tool. According to [research compiled by the Chicago Metropolitan Agency for Planning](#), between 2013 and 2015, the number of incentive deals rose from 343 to 359 in northeastern Illinois communities. The amount committed through those sales tax rebate programs rose from \$433 million to \$495.5 million.

Most rebate programs are given to auto dealerships, as is the case in Downers Grove, where five of the eight incentive packages were given to dealerships. The other three are an electronics store, a furniture business and a for-profit college.

Fieldman defended the rebates because most only apply to new tax revenue generated from the businesses. The village sets a base amount of sales taxes it expects to receive from the businesses and then splits receipts for taxes collected above that threshold. The rebate program also requires some type of capital investment from the business as well.

"It's not only improved the aesthetics and building quality, but improved our community and shared bottom line," Fieldman said.

One of the most lucrative deals is set to expire in 2019. The Zeigler Chrysler dealership receives 50 percent of all sales tax on the first \$700,000 worth of sales. Then it receives 75 percent of sales tax on any sales above \$700,000.

Over the past three years alone, the dealership has received nearly \$860,000 in sales tax rebates, according to village financial records.

Fieldman said the new food and beverage tax isn't due to the rebate program, but "changing retail patterns in general." Restaurant growth is outpacing retail growth, and Fieldman said the village is "not getting local taxes on purchases like we used to."

He also complained about a new state policy that will siphon off 2 percent of the village's home-rule sales tax receipts for a processing charge, something that is estimated to cost the village about \$50,000 this year alone in just four months of collection.

While village officials are forecasting even less sales tax revenue this year than in 2016, it's not shaping up to be as big a drop. According to Illinois Department of Revenue figures, the village's sales tax receipts for the first eight months of 2017 are down nearly \$320,000 over the same period last year. However, the village received more sales tax revenue in July and August this year than during those two months last year -- about \$100,000 more.

Got a tip?

Contact Jake at jgriffin@dailyherald.com or (847) 427-4602.